

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D. C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of:)

Petition for Rulemaking to)
Amend Part 32 of the)
Commission's Rules to)
Eliminate Detailed Property)
Records for Certain Support)
Assets)
_____)

RM 8640

DOCKET FILE COPY ORIGINAL

COMMENTS OF BELL SOUTH
TELECOMMUNICATIONS, INC.

BELL SOUTH TELECOMMUNICATIONS, INC.
By its Attorneys

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SUMMARY

BellSouth Telecommunications, Inc. (BellSouth) supports the United States Telephone Association's (USTA) Petition for Rulemaking, and urges the Commission to grant the petition and initiate a rulemaking on USTA's proposal. Other federal and state regulatory agencies have effectively employed the vintage amortization level (VAL) property record accounting procedures. The Commission should strongly consider adopting the VAL property record proposal for common carriers it regulates. Adoption of the USTA proposal will allow carriers to eliminate the detailed, costly and time consuming tracking and reporting requirements currently necessitated by Part 32 for these categories of support assets. Addressing these small unit value assets in the manner suggested by USTA will be more efficient than continuation of the Commission's practice of periodically initiating proceedings to adjust the expense limit for certain small value support assets.

The VAL accounting proposed by USTA would also eliminate the requirement for detailed depreciation studies for these categories of support assets, thus making human resources available for other efforts. This simplified approach is entirely consistent with the Commission's policy of reducing regulatory burdens on carriers it regulates.

While alternatives may exist to the USTA proposal, BellSouth fully supports USTA's VAL property record proposal as the best overall solution. The USTA proposal in no way threatens the

security of the assets at issue, and existing company controls are more than adequate to enable carriers to account for these assets, and determine their cost and location within the company. The VAL proposal provides for automatic retirements of assets at the end of the applicable amortization period, and for the cost of the fully amortized support assets to be removed from carrier books at the end of the amortization period. BellSouth supports these proposals, and supports USTA's Petition for Rulemaking. The Commission should grant the USTA petition and initiate rulemaking on the USTA proposal.

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COMMENTS OF BELLSOUTH
TELECOMMUNICATIONS, INC.

BellSouth Telecommunications, Inc. (BellSouth), through undersigned counsel, hereby submits its comments in the above-referenced proceeding, pursuant to the Public Notice released by the Commission on May 10, 1995. For the reasons stated hereafter, BellSouth urges the Commission to grant the Petition for Rulemaking filed by the United States Telephone Association (USTA) on May 31, 1994.

The USTA petition requests that the Commission initiate a rulemaking proceeding to amend Part 32 of its rules to eliminate detailed continuing property record ("CPR") requirements for certain support asset accounts (i.e., Account 2115 (Garage Work Equipment), Account 2116 (Other Work Equipment), Account 2122 (Furniture), Account 2123 (Office Equipment), and personal computers and peripheral devices in Account 2124 (General Purpose Computers)).

The Commission's Public Notice requests comments on the USTA petition, and also specifically seeks comment on: 1) alternatives for simplifying the CPRs; 2) how USTA's proposal or other alternatives will provide for adequate internal controls; 3) what records are necessary to ascertain the location, existence and cost of the support assets; 4) how carriers should account for the retirement of the support assets; 5) and whether parties believe the CPRs should be modified. BellSouth offers the following comments in support of the USTA petition and in response to the Commission's invitation to comment.

I. COMMENTS ON USTA PETITION

The USTA petition asks the Commission to initiate a rulemaking proceeding consistent with USTA's proposal to amend Part 32 to eliminate the requirement that carriers maintain detailed property records for certain support assets and to instead permit carriers to maintain vintage amortization level (VAL) property records for these support assets. BellSouth urges the Commission to grant the petition and establish a rulemaking for the reasons discussed below.

The first reason to grant the petition for rulemaking is that it would afford the Commission an opportunity to consider the application to telecommunications carriers of the vintage amortization accounting and property record systems currently allowed for electric and gas companies by many state public service commissions (PSCs) and the Commission's sister agency, the Federal Energy Regulatory Commission (FERC). BellSouth's research

indicates that FERC, at least twelve PSCs¹ and the National Energy Board of Canada have approved VAL accounting and property records for utilities regulated by these agencies. Further, in most instances both the state PSCs and FERC are approving VAL accounting and property record requirements which allow the utilities to benefit from lower administrative costs and lower costs of doing depreciation studies. For example, in approving the request of Detroit Edison Company for vintage amortization accounting and property records, the Michigan PSC stated:

"We understand that the proposed method of accounting will be more economical, will eliminate the recording and tracking of over 54,000 individual items, record the total costs incurred by year as a vintage group and provide for the timely retirement of utility plant. The depreciable lives, or vintage write-off lives, will be those established in depreciation orders...."

In the rulemaking proceeding, the Commission will be able to evaluate the practical experiences of the regulatory agencies that have already recognized the benefits of the VAL property records process. Also, as pointed out in USTA's petition, the Florida PSC has adopted VAL accounting and property records for telecommunications carriers in that state. In fact, the Florida PSC adopted these requirements concurrent with the adoption of the Commission's new Part 32 rules in 1988. However, BellSouth and other carriers do not presently realize most of the potential cost savings that normally would result from simplification of the CPR

¹States permitting VAL property record and vintage amortization accounting are: Arkansas, California, Connecticut, Florida, Maryland, Massachusetts, Michigan, Minnesota, New York, Oklahoma, Pennsylvania, Virginia.

requirements because BellSouth and other carriers must still continue to maintain the detailed property records currently required by the Commissions's Part 32 Rules.

BellSouth can also envision circumstances in which some carriers' state PSCs would not adopt the VAL property records and amortization accounting contained in the USTA proposal. Another alternative the Commission could consider would be to modify Part 32 to permit carriers the option of maintaining the VAL property records and amortization accounting proposed in the USTA petition or, if a state PSC does not embrace such an option, to continue the detailed property records required by the current Part 32 rules. Providing this type of flexibility would permit carriers to work with their state PSCs to also obtain approval of the VAL property record approach and related accounting procedures. It would also eliminate situations like the one in Florida where most of the cost savings that could be realized through application of the VAL property records and amortization accounting are not being fully realized because the Company must continue to maintain the detailed property records required by Part 32.

While the FCC has often been a pioneer agency in areas of regulatory reform, in this particular case FERC and state PSCs have been first to embrace the utility and benefits of the VAL property record approach. The Commission should now consider extending these advantages of efficiency, cost savings and reductions in regulatory burdens to carriers it regulates.

The adoption of the USTA proposal will also allow carriers to eliminate the tracking and reporting requirements associated with the detailed property records currently required by Part 32. BellSouth estimates that the administrative cost savings resulting from eliminating these requirements for BellSouth in all jurisdictions would be approximately \$6 million. A number of BellSouth's state PSCs usually adopt the Commission's changes to Part 32 without any modification. Because the amendments to the Part 32 rules proposed in the USTA petition will enable carriers to reduce administrative costs without any increase in costs to ratepayers and does not compromise the integrity of the Part 32 financial accounting system, BellSouth believes its state regulators will adopt the Commission's rule changes without modification. Granting USTA's petition for rulemaking will also provide the Commission with the opportunity to evaluate state PSCs' disposition toward such a change.

A third reason to grant the USTA petition is that it would minimize the need for periodic changes in the expense limit for items of small value. The Commission is currently considering raising such expense limits in CC Docket No. 95-60. The primary reason for seeking changes in the expense limit rule is to reduce the administrative cost of otherwise complying with Part 32 by maintaining detailed property records for small value items. BellSouth estimates that the limited relief currently being proposed by the Commission in CC Docket No. 95-60 (i.e increasing the expense limit from \$500 to \$750) would reduce BellSouth's

administrative cost of maintaining the Part 32 property records by only \$1 million. This amount is one-sixth of the cost savings possible if the Commission were to adopt the VAL property record approach. Also, increases in the expense limits have immediate financial impacts because of the shifts from capital to expense. Under the VAL proposal, the level of capitalized costs remains basically unchanged.

Finally, the VAL property records and amortization accounting proposal in the USTA petition will eliminate the requirement for detailed depreciation studies for these support assets. This will enable carriers and the Commission to reduce their cost immediately or to eliminate the cost of future resource requirements through the redeployment of resources that would no longer be required to conduct depreciation studies for these accounts. The Commission has continuously stressed its desire to simplify depreciation processes consistent with its stated policy of reducing regulatory burdens for carriers. The USTA proposal is entirely consistent with stated Commission policy in this area.

II. ALTERNATIVE PROPOSALS FOR SIMPLIFYING CPR REQUIREMENTS

The Public Notice sought comment on any suggested alternatives for simplifying the CPR requirements for the support assets listed in the USTA petition. While BellSouth does not endorse such a course of action, one alternative would be to maintain the status quo and to continue the duplicative rulemaking process of periodically changing the expense limit for individual items of small value. BellSouth notes that the Commission has historically

initiated such proceedings at the request of petitioners. However, such proceedings consume valuable and scarce resources of the Commission and the carriers and the relief is often insufficient as well as transitory. In comparison, the USTA VAL proposal promises enduring benefits through reduced administrative proceedings and ongoing cost savings for carriers.

In the Petition for Rulemaking that led to the creation of CC Docket No. 95-60, USTA had proposed that the expense limit for certain small value items be increased from \$500 to \$2000. Such a change, if implemented would result in an annual administrative cost savings to BellSouth of \$3 million. However, the NPRM released in that proceeding has requested comments on a modest proposal to increase the expense limit from \$500 to only \$750. Parties have not yet had an opportunity to file comments in this docket, but if the Commission pursues its suggested course as set forth in the NPRM, the "relief" afforded will be merely illusory, and the Commission likely will soon be faced with a renewed petition for further relief. Such a piecemeal approach is not only unsatisfactory, but is also inconsistent with Commission policy toward easing regulatory burdens on carriers. BellSouth strongly urges the Commission to devote its resources to a full and complete evaluation of the proposed amendments to Part 32 offered in the USTA petition.

III. EFFECT OF USTA'S PROPOSAL OR OTHER ALTERNATIVE PROPOSALS ON INTERNAL CONTROLS REQUIRED TO SAFEGUARD SUPPORT ASSETS

Property records are not designed to serve as safeguards for assets. Instead, in the current Part 32 environment these records provide a way to identify the average cost of homogenous items recorded within the same Part 32 account or subaccount, and provide a more detailed level of the historical cost of assets. These detailed property records do not serve as a safeguard to deter the improper disposition of assets. This is evidenced by the fact that when the Commission has historically increased the expense limit for individual items, carriers have not been required to add additional controls to protect items eliminated from the property records as a result of the change. Such additional protections are unnecessary because the corporation has an independent vested interest in the security of its assets, and has controls in place to ensure the security of such assets. Thus, the fact that these support assets are no longer recorded in the property records does not mean that internal controls are no longer required for the assets.

Internal controls consist of organizational plans, policies and procedures, records and reports and standards of performance. Also, the Foreign Corrupt Practices Act of 1977 requires corporations, among other things, to design a system of internal controls that safeguard assets and ensure that assets are used for proper corporate purposes. A corporation's management has the

ultimate responsibility for ensuring that these controls exist and are functioning as designed.

BellSouth's system of internal controls has been designed to meet the requirement to safeguard assets. Briefly, BellSouth's policies and instructions in part provide:

- 1) that each employee is personally responsible for safeguarding assets and ensuring that assets are properly used in the conduct of the corporation's business;
- 2) the level of management approval required for expenditures incurred to acquire or dispose of the company's assets;
- 3) the level of management approval required for physical removal of assets from the company's premises or for transfer and use of assets at a different location

The rulemaking proceeding will provide the Commission with the additional opportunity to examine the specific internal controls employed by BellSouth and other carriers to safeguard their assets.

Moreover, general support assets are usually located in secured buildings. Prohibitions against taking these assets past security check points without appropriate management authorization is one example of an internal control that deters the physical misappropriation of these support assets. In most instances, individuals that might attempt to remove these assets would not even be aware of the existence of detailed property records such as those required by Part 32. Thus, it is existing company policies and security controls, and not the existence of historical cost data maintained on a property record, that deters the misappropriation of company assets.

Therefore, a decision to retain the detailed property records required by Part 32 or a decision to replace these requirements with VAL property record requirements as outlined in the USTA petition will have no impact on the internal controls required to safeguard support assets.

IV. RECORDS NECESSARY TO ASCERTAIN THE LOCATION, EXISTENCE AND COST OF ASSETS

Carriers are required to maintain the detailed information supporting transactions entered in the Part 32 books of account. In the case of assets, BellSouth's policies and procedures require that supporting documentation be retained permanently. This supporting documentation can be used to determine the costs and location of assets.

V. CARRIER ACCOUNTING FOR RETIREMENT OF SUPPORT ASSETS

BellSouth supports USTA's proposal to remove (i.e., retire) the cost of fully amortized support assets from the carriers' books of account. Retiring the investment cost of fully amortized support assets ensures the cost only gets charged to expense once.

VI. CPR REQUIREMENTS SHOULD BE MODIFIED FOR CERTAIN SUPPORT ASSETS

As previously discussed, CPRs are not designed to safeguard assets. However, CPRs do provide a means of identifying the actual cost of assets maintained as individual retirement units or the average cost of homogenous groupings of retirement units recorded within the same Part 32 account (i.e., personal computers, printers, terminals etc., are recorded in a single subaccount under Account 2124, General Purpose Computers). Adoption of the VAL

property record approach and the retirement accounting proposed in the petition eliminates this need for detailed property records currently required for these support assets by Part 32.

CONCLUSION

BellSouth believes adoption of the amendments to Part 32 proposed in USTA's petition will provide the following benefits:

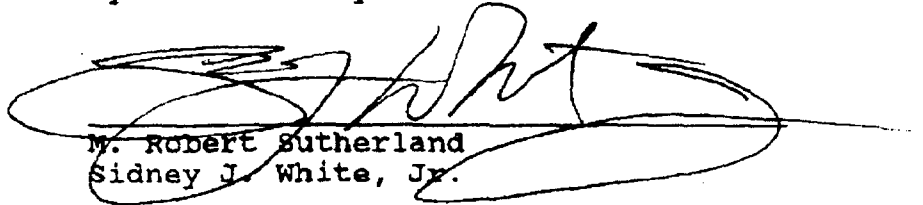
- 1) Significantly simplify the depreciation rate prescription process for these support assets by allowing carriers to employ best practices for these support assets that are currently being allowed for regulated electric and gas utilities;
- 2) Minimizes the need for redundant expense limit changes allowing the Commission and carriers to refocus resources on other relevant issues;
- 3) Allows carriers to realize significant cost savings without sacrificing internal controls or the integrity of reported financial data;
- 4) The proposal can be adopted by both state PSCs and the Commission without any adverse financial impacts to the carriers or their customers.

In light of the benefits to be derived from adoption of this proposal, BellSouth strongly urges the Commission to grant the USTA petition and initiate a rulemaking

proceeding for the purpose of evaluating USTA's proposed amendments to Part 32.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this 5th day of July, 1995, served the following parties to this action, with a copy of the foregoing COMMENTS OF BELL SOUTH TELECOMMUNICATIONS, INC. referenced to RM 8640 by hand delivery or by placing a true and correct copy of the same in the United States mail, postage prepaid.

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